

## Poverty Outreach Findings: Mibanco, Peru<sup>1</sup>

### Introduction

ACCION International is conducting a poverty outreach project to better understand the poverty profile of microfinance clients in the ACCION Network. ACCION intends to utilize this information to develop more effective means of assessing the outreach of its affiliate microfinance institutions (MFIs) at a low cost and on a regular basis. In addition, this research will inform ACCION's efforts to develop products that reach poorer levels of microentrepreneurs.

This document summarizes our first of five affiliate-level poverty assessments, focusing on the poverty level of ACCION affiliate Mibanco, in Peru. We evaluate the incomes of Mibanco's clients relative to the general population in Peru and specifically in Lima, the capital city, where Mibanco disburses the majority of its loans. The paper compares the demographic and socioeconomic profiles of Mibanco clients with those of the reference groups. Using the results of the comparison, it then proposes methods for Mibanco to monitor its outreach to poor clients on a regular basis. Throughout the report, vignettes describing some of Mibanco's poor clients are included to remind us that there is, in fact, no "typical" poor client.

### **The Peruvian Context**

Despite regional instability, Peru's economy is one of the strongest in Latin America at this time. With a 2002 GDP per capita of \$1,959<sup>2</sup> and an inflation rate of 1.7 percent, Peru is currently enjoying decent economic times relative to much of the rest of the region. Nevertheless, quality of life for many Peruvians leaves much to be desired. Unemployment in urban areas hovers at 10 percent and about 50 percent of employed Peruvians are considered underemployed. As of 2003, Peru is emerging from a four-year recession. An optimistic political outlook accompanies the administration of Alejandro Toledo, who was elected president in June 2001 after President Alberto Fujimori's departure in the wake of corruption and bribery scandals.

Seventy-three percent of Peru's 28 million citizens live in urban areas, with more than eight million in Lima alone. A continuous influx of immigrants from Peru's rural areas since the 1940s has led to a population explosion in the capital city. Because the vast majority of immigrants during this time were low-skilled, and because of the scarcity of formal jobs, many of these immigrants started their own microenterprises to support themselves. A decline in public sector jobs in the late 1990s (from 17 to seven percent of total employment in Lima over a decade) further drew people to self-

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<sup>1</sup> This InSight is based upon a more detailed report entitled *Poverty Outreach Findings: Mibanco, Peru*, which includes the data that informs our findings and a more detailed discussion of our methodology. It is available by request to [plee@accion.org](mailto:plee@accion.org).

<sup>2</sup> International Monetary Fund (IMF). *World Economic Outlook (WEO)* database.

employment. According to INEI's<sup>3</sup> 1996 National Survey of Households, nearly 4.5 million people, or 66 percent of the economically active population in urban areas, worked at a microenterprise (less than 10 employees).

## Mibanco

In 1996, in response to the growing microenterprise sector, President Alberto Fujimori challenged Peru's financial sector to establish a regulated, commercial bank for the poor. A clear leader in microfinance at the time, nonprofit Acción Comunitaria del Perú (ACP) was the logical institution to take on the role. Therefore, in May 1998, with the technical support of ACCION International, and both private and nonprofit investors, ACP transformed from a nongovernmental organization to a commercial bank, Mibanco.

Today, ACP continues to operate as a nonprofit organization, offering training and rural credit while Mibanco provides its clients with savings and a range of credit products, including working capital, housing, and consumer loans. One of the largest MFIs in Latin America, Mibanco serves 99,121 active borrowers with an active loan portfolio of US\$92.3 million<sup>4</sup>. Mibanco is headquartered in Lima, with 28 branch offices in Lima and the nearby port city of Callao, Chincha (120 miles south of Lima), Huancayo (the largest city in the Central Andes), and the northern coastal city of Chiclayo. Mibanco is widely considered one of the most successful examples of a commercial MFI in Latin America.

### Elvia Fuertes Ruiton, Bodega owner

Elvia Fuertes Ruiton owns a convenience store in the first floor of her home. Before becoming a Mibanco client, Elvia borrowed from loan sharks. However, their interest rates were so high that she needed an alternative.

In 1996, she received her first Mibanco (ACP at the time) loan for US\$100. Since then, she's taken 29 loans, the most recent for \$880. Before her first loan, she brought in about \$20 per day, and now she brings in nearly \$75 each day. She estimates that her profits have increased by 50 percent since she became a Mibanco client. At the time of her first loan, Elvia sold cheese from a stand in the market. She has used most of her loans to buy cheese in bulk. In July 2000, she opened the bodega with her savings and a Mibanco loan.

Elvia has three daughters, ages 20, 19 and three. She wanted to open a store from her home to be closer to her daughters and keep later hours. She works from 6am until 10pm each day. She'd like to use a future loan to open a second, bigger store some day.



<sup>3</sup> INEI, or *Instituto Nacional de Estadística e Informática*, is Peru's national statistics agency.

<sup>4</sup> Statistics reported as of December 31, 2002.

## **Poverty Assessment Methodology**

In this study we first compare the poverty level and demographic characteristics of Mibanco clients with a national sample and a population sample limited to Lima. To perform the poverty assessment, we analyze the poverty distributions among the groups in comparison with national and international poverty lines. We also employ correlation and multivariate regression analyses. In addition, we analyze the relationship between client poverty levels and demographic and loan data in order to define accurate poverty indicators.

For further information on the methodology employed in this analysis, we refer the reader to the *ACCION Poverty Assessment Framework* ([www.accion.org/pubs](http://www.accion.org/pubs), *InSight* #1).

## **Poverty Lines**

In the Mibanco data analysis, we assess absolute poverty levels by comparing consumption (income and expenditure<sup>5</sup>) to several fixed poverty lines: the national Peruvian poverty line, the Lima metropolitan poverty line, and the \$1/day and \$2/day international poverty lines. Poverty lines, which theoretically represent the cost of consuming a basket of basic food and non-food necessities, come from a variety of sources and vary considerably. The national poverty line employed in this analysis is the official national poverty line used by the Peruvian government. It was based on a 1997 household survey<sup>6</sup> and is approximately the median of several alternative poverty lines. In addition to the national poverty line, we use a Lima poverty line based on the same 1997 survey. This poverty line reflects the higher cost of living in the Lima metropolitan region where Mibanco primarily operates. These poverty lines are S/157 and S/214, respectively, per person per month in 1997 prices. ACCION also used the international \$1/day and \$2/day poverty lines, which represent the purchasing power of US\$1 and \$2 per person per day across countries<sup>7</sup>. All poverty lines are adjusted by the consumer price index to make their prices comparable to Mibanco data collected in 2000<sup>8</sup>.

## **Poverty Indicators and Classifications**

The primary goal of ACCION's poverty assessment is to compare the *distribution* and not simply the incidence of poverty between ACCION clients and the population. However, to better understand the profile of both the clients and the population, we group households by poverty level in certain parts of the analysis. We classify households as "poor" or "non-poor" and also group them in five categories (Levels 1 through 5) to examine a more detailed distribution. In both cases, households are classified on the basis of per capita income, and compared to the per capita poverty lines.<sup>9</sup>

<sup>5</sup> See *ACCION Poverty Assessment Framework*, *InSight* #1 for more on the relationship between consumption, income and expenditure.

<sup>6</sup> INEI (1998) *Peru: Medición de Niveles de Vida y Pobreza*. Encuesta Nacional de Hogares 1997, Colección Estudios e Investigaciones. Programa MECOVI, Lima, Peru: Instituto Nacional de Estadística e Informática. From Mejía (1998).

<sup>7</sup> The \$1/day and \$2/day lines are actually equal to \$1.08 and \$2.16 in 1993 PPP terms, measured in 1993 US dollar prices. In today's dollars they are equal to \$1.76 and \$3.52, respectively.

<sup>8</sup> Throughout this report, data is reported in terms of 2000 nuevos soles, unless otherwise noted.

<sup>9</sup> Analysis was also conducted on an expenditure basis. It revealed that the Mibanco expenditure data was not as reliable as the income data, and therefore only the income results are presented here. Those interested in the expenditure data and its quality may examine the longer version of this report.

In the two-category classification, we simply use the Lima poverty line as the threshold criteria for poverty. In the more detailed classification, we created five categories based the Lima poverty line. Level 1 includes all households with per capita income levels of 0-50 percent of the Lima poverty line; Level 2 includes households with income equal to 50-75 percent of the poverty line; Level 3, 75-100 percent; Level 4, 100-120 percent, and Level 5, over 120 percent. Therefore, levels 1-3 represent all households below the Lima poverty line and levels 4 and 5 include near poor and non-poor households.

## Poverty Outreach Data

### *Mibanco Data*

Because Mibanco has a strong lending program with reliable data housed in well-designed management information system (MIS) databases, it was the first institution selected to undergo the data analysis component of ACCION's poverty outreach project. The Mibanco data were originally collected during the standard client application process and entered into Mibanco's MIS. The credit evaluation process analyzes the income and expenses of the household unit. The cashflows of the client's business are first evaluated and then combined with a broader analysis of the client's household. Thus, the credit evaluation process generates detailed income and expenditure data, along with a number of demographic details at the level of the household unit. These features make it relatively straightforward to compare Mibanco data with household survey data, which is described below. However, an adjustment was made to household size data to correct for differences between household surveys and Mibanco in defining members of the household.

For ACCION's poverty outreach project, the data consists of clients who received a working capital loan<sup>10</sup> between April 2001 and April 2002 from three of Mibanco's 28 branches. These three branches (Chorillos, Independencia and Callao) are in or around Lima proper and are generally representative of Mibanco's broader client base in terms of loan size and client profile. Each observation contains information about the most recent loan for individual clients. There are 7,206 clients in our sample, approximately seven percent of Mibanco's total active clients.

### *LSMS Data*

The World Bank's Living Standard Measurement Study (LSMS) is a large-scale household survey project that provides a methodology for statistically-relevant surveys which are conducted by in-country partner organizations, with methodological support from the World Bank. LSMS surveys in Peru (referred to as the *Encuesta Nacional de Hogares Sobre Medición de Vida, ENNIV*) were conducted in 1985-86, 1991, 1994 and 1997. We utilize the 1994 LSMS survey, the most recent available through the World Bank.

Peru's 1994 LSMS survey provides a nationally-representative sample of 3,623 households. From this national sample, we selected the 830 households in the Lima metropolitan region to compare with Mibanco's primarily Lima-based clients. The household questionnaire contains 14 sections covering different household characteristics and activities, general demographic data, education, housing and health. Data on economic activity includes information on household employment,

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<sup>10</sup> To qualify for a working capital loan, an applicant must have been in business for at least six months. Only one entrepreneur per household is eligible for a loan. Seventy-five percent of Mibanco's clients receive working capital loans.

income, and food and non-food expenditure. The aggregate income variable includes wage and in-kind income, self-consumption<sup>11</sup>, property rental, and other payments (e.g., pensions, dividends, remittances, etc.).

**Overall Poverty Comparisons**

Based on a simple headcount of the number of people above and below the poverty line, we find that the poverty rate of Mibanco clients is higher than the Lima sample population when measured using both the national and Lima poverty lines. As illustrated in Table 1, we find that nearly half (49 percent) of Mibanco’s clients are living in poverty, compared with 40 percent of the Lima population sample. Twenty-seven percent of Mibanco clients are also classified as poor based on the lower national poverty line, compared with only 22 percent of the Lima sample<sup>12</sup>.

Because Mibanco operates almost exclusively in the urban setting, the majority of our discussion uses the Lima poverty line as its basis. Nevertheless, it is important to note the higher incidence of poverty in the national sample, suggesting higher rates of poverty in rural areas. As illustrated in the table, the \$1/day and \$2/day poverty lines are essentially irrelevant in the context of the Lima metropolitan area, due to the higher urban cost of living.

**Table 1: Percent of Population Below Poverty Lines**

<i>Population Sample</i>	<i>National Poverty Line</i>	<i>Lima Poverty Line</i>	<i>\$1/day Poverty Line</i>	<i>\$2/day Poverty Line</i>
Mibanco	27	49	0	4
Lima	22	40	1	6
Peru	52	66	10	30

**Serving Peru’s Poor Majority**

According to our analysis, Mibanco clients share a poverty profile with the urban Lima population. These findings tell a story that is consistent with informal observations: a small percentage of Mibanco’s clients have either very low or very high income levels, suggesting that Mibanco is serving Lima’s poor and near-poor majority.

The cumulative distribution functions (CDFs) in Figure 1 provide a more detailed illustration of how our three population samples compare to the four poverty lines. They show, again, that Peru’s national population has the highest level of poverty, and that the Lima and Mibanco populations have similar poverty profiles. The individual curves illustrate the percentages of each population sample (Mibanco, national and Lima) that have incomes below a given level indicated on the horizontal axis.

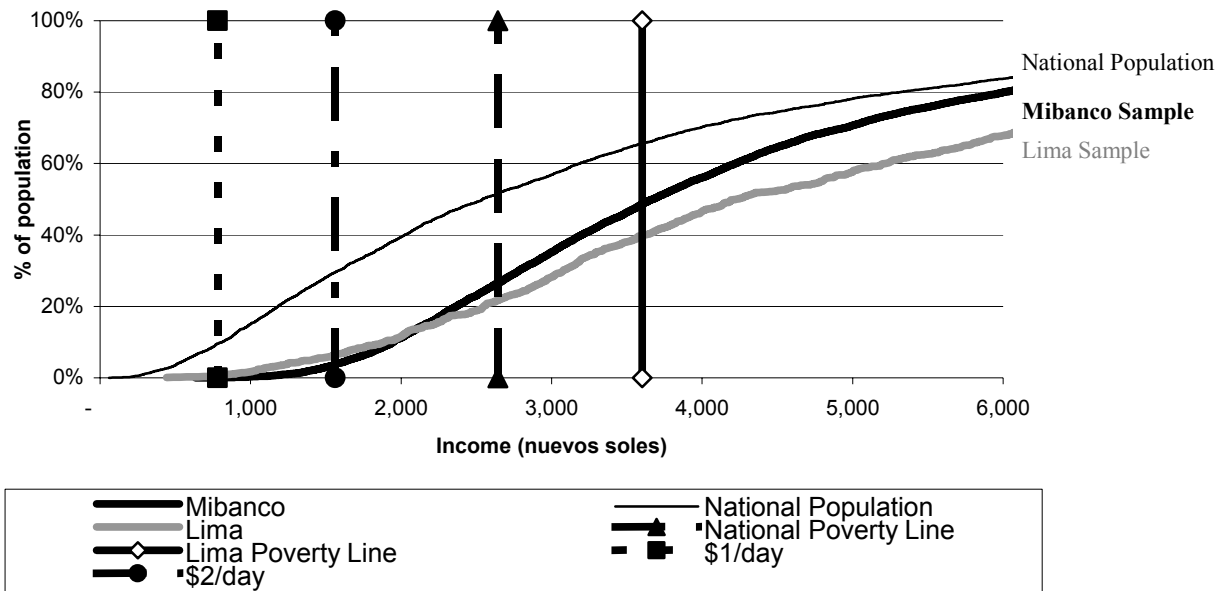
The four poverty lines are imposed as vertical lines corresponding to the appropriate annual per capita income levels. A higher distribution curve illustrates a higher number of households in poverty. Therefore, the national population’s CDF line, which is continuously higher than the Mibanco and Lima CDFs, illustrates the higher percentage of national households living below

<sup>11</sup> Goods produced and consumed within the same household.

<sup>12</sup> The Lima poverty line is equal to S/3,601 or \$1,029 in 2000 annual income per capita terms, using an exchange rate of S/3.5 per USD. The national poverty line is equal to S/2,642 or \$755.

each of the four poverty lines. The intersection of the Mibanco and Lima CDFs demonstrates that a higher percentage of Lima households than Mibanco households have incomes below the \$1 and \$2/day poverty lines, but a greater percentage of Mibanco client households have incomes below the national and Lima poverty lines.

**Figure 1: Household Annual Income Per Capita, Mibanco 2000-2001**



Based upon annual household income per capita, Figure 1 is our most accurate estimate of the poverty break-down of Mibanco clients compared to the Lima and national populations.

To illustrate the distribution of poverty, we divide Mibanco’s clients into five poverty categories based upon clients’ household income per capita as a percentage of the Lima poverty line. As shown in Table 2, we find that seven percent of Mibanco clients fall into Level 1 (poorest category); 21 percent fall into Level 2; 21 percent are in Level 3; 13 percent in Level 4; and 38 percent in Level 5 (our wealthiest category). Applying this distribution of clients to Mibanco’s total clientele, we can estimate that Mibanco is reaching approximately 48,000 poor urban entrepreneurs and their households, including 6,900 with incomes below 50 percent of the poverty line. With an estimated 696,000 households in Lima living below the Lima poverty line, Mibanco’s poverty outreach is significant but a large market remains.

**Table 2: Income Summary Statistics by Poverty Level (in annual, /S), Mibanco Clients**

<i>Poverty Level</i> (Based on Lima Poverty Line)	<i>Poverty Level Definition</i>		<i>Household Income</i>	<i>Household Income per Capita</i>	<i>Percentage of Clients</i>	<i>Approximate Total Number of Clients</i> (n=99,121)
<b>Level 1</b> n=510	0-50% of Lima poverty line	Median Mean Std Dev	9,506 9,703 2,350	1,550 1,500 226	7%	6,900
<b>Level 2</b> n=1,503	50-75% of Lima poverty line	Median Mean Std Dev	12,235 12,500 3,130	2,269 2,263 255	21%	20,700
<b>Level 3</b> n=1,496	75-100% of Lima poverty line	Median Mean Std Dev	14,941 15,344 4,059	3,130 3,140 261	21%	20,600
<b>Level 4</b> n=942	100-120% of Lima poverty line	Median Mean Std Dev	17,476 17,992 4,640	3,939 3,955 209	13%	12,900
<b>Level 5</b> n=2,755	Greater than 120% of Lima poverty line	Median Mean Std Dev	26,541 31,504 19,149	6,127 7,489 4,449	38%	37,700
<b>Total</b> n=7,206		Median Mean Std Dev	16,824 20,876 14,931	3,672 4,610 3,621		

Our analysis captures information at one point in time. It does not demonstrate the changes in income that people naturally undergo. In reality, people’s poverty levels fluctuate as they become more or less vulnerable to their surrounding environments. Therefore, Mibanco client households clustered around the Lima poverty line (Levels 3 and 4) are likely to experience periods of both poverty and non-poverty at various times.

**Gabriela Camacho Díaz, Fruit vendor**

Before receiving a Mibanco loan in 1999, Gabriela Camacho Díaz sold small amounts of fruit from a table in a marketplace near Lima. With a first loan of US\$430, she was able to save money by buying larger amounts of produce in bulk. Since then, she has taken out three additional loans which she used to purchase fruit, a better stand, scales and a tarp.



Gabriela and her husband own a home near the marketplace where they live with their two daughters and a five-year-old granddaughter. With additional loans, Gabriela hopes to build a small store in her home so she can stay at home with her children while earning money.

**Demographic & Socio-Economic Characteristics**

Mibanco clients and the Lima population sample have generally similar demographic profiles. The majority of both groups are married and have similar levels of educational attainment across poverty levels. The majority of both groups also own their own homes. As expected, larger households tend to be poorer than smaller households in all samples. However, among Mibanco clients, home ownership decreases with increase in income, whereas in the Lima sample, home ownership increases with income.

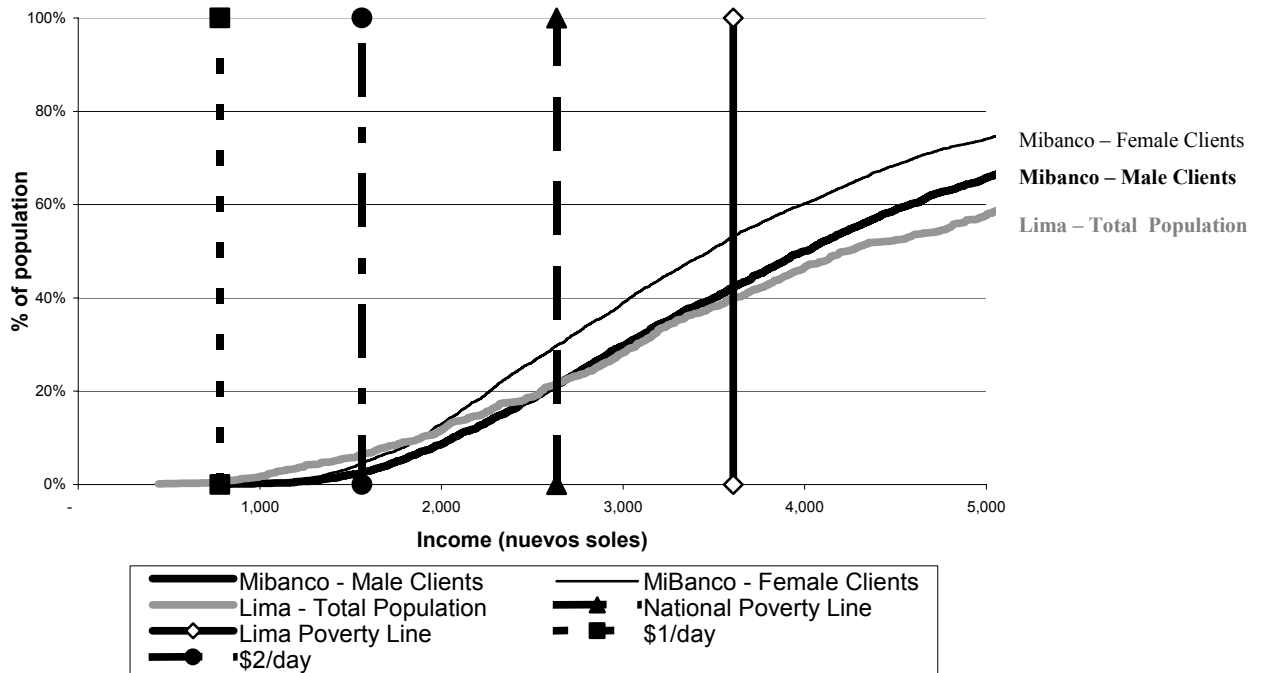
There are several notable exceptions to the demographic similarities between the Mibanco clients and Lima sample. Fifty-three percent of Mibanco’s female clients are categorized as poor while only 38 percent of females in the Lima sample are considered poor. We hypothesize that this may be attributable to a higher incidence of female microentrepreneurs than male microentrepreneurs. Of the poor, a greater percentage of Mibanco clients are engaged in commerce than are poor people in the Lima population. For example, 82 percent of Mibanco clients in poverty level 1 are engaged in commerce, compared with 37 percent of individuals in the Lima sample. Among Mibanco clients, a greater percentage of poorer clients run commerce businesses while wealthier clients are more commonly engaged in service enterprises, such as hair salons or car repair shops. The economic activity among individuals in the Lima sample is relatively similar across poverty levels.

**Table 3: Demographic Comparison, Percent by Poverty Level**

Poverty Level	Gender		Economic Activity			Housing			
		Mibanco	Lima		Mibanco	Lima		Mibanco	Lima
1	Female	71	27	Production	10	7	Rent	1	9
	Male	29	73	Service	8	56	Own	84	64
				Commerce	82	37	Other	14	27
2	Female	68	21	Production	10	11	Rent	2	15
	Male	32	79	Service	13	46	Own	80	66
				Commerce	78	52	Other	19	19
3	Female	63	18	Production	11	10	Rent	4	18
	Male	37	82	Service	15	47	Own	77	63
				Commerce	74	44	Other	19	18
4	Female	57	21	Production	9	11	Rent	4	17
	Male	43	79	Service	20	47	Own	74	65
				Commerce	71	44	Other	21	18
5	Female	53	23	Production	12	11	Rent	5	16
	Male	47	77	Service	23	57	Own	69	74
				Commerce	65	35	Other	26	10

As illustrated in Figure 2, female Mibanco clients are poorer than male clients and the Lima population sample.

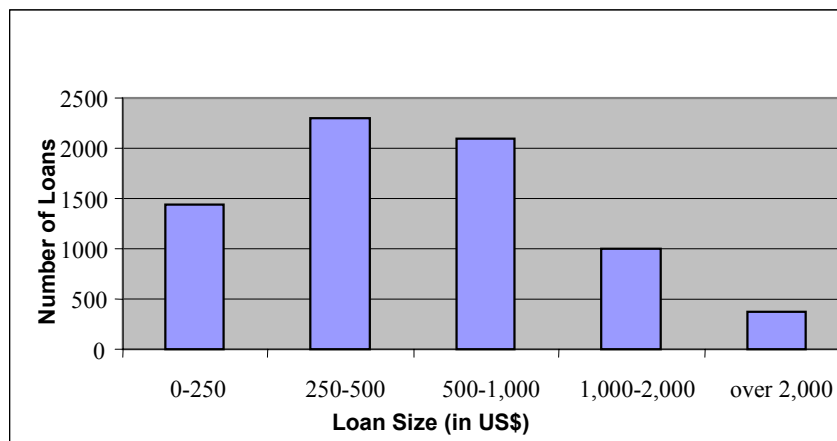
**Figure 2: Mibanco: Annual Household Income Per Capita by Gender**



**Mibanco Loan and Microenterprise Characteristics**

As illustrated in Figure 3, the majority of Mibanco loans fall into the \$0 to \$1,000 range.

*Figure 3: Mibanco Loan Size Distribution*



As expected, poorer clients receive smaller loans than do clients with higher incomes. Similarly, poorer clients have smaller payment sizes (median payment size of clients in poverty Level 1 is S/116) while larger payment sizes are attributed to wealthier clients (median payment size of clients in poverty Level 5 is S/452). This is to be expected, since loan and payments sizes are determined with reference to household income.

**Table 4: Annual Household Income by Loan Size (US\$)**

	<i>Loan Size:</i>				
	<i>0-\$250</i>	<i>\$250-\$500</i>	<i>\$500-\$1,000</i>	<i>\$1,000-\$2,000</i>	<i>over \$2,000</i>
Median	3,294	4,084	5,412	7,671	11,588
Mean	3,593	4,597	6,273	8,758	14,069
std dev	1,493	2,277	3,476	4,341	8,326
n	409	656	597	287	109

We find that the longer a client has been in business, the higher his or her income tends to be. Specifically, clients in poverty Levels 1 and 2 have run their businesses for a median of five years, while clients in poverty Levels 3 and 4 have run their businesses for a median of six years. Clients in the wealthiest category, Level 5 have been in business for a median of seven years.

**Table 5: Mibanco Microenterprise Characteristics (median years, percent)**

	<b>Years with Microenterprise</b>	<b>Microenterprise Share of Income (%)</b>
<b>Level 1</b>	5	68
<b>Level 2</b>	5	74
<b>Level 3</b>	6	80
<b>Level 4</b>	6	84
<b>Level 5</b>	7	92
<b>Total</b>	6	83

When examining the microenterprise’s contribution to household income, we find that higher income households have a larger percentage of income attributable to the microenterprise than do poorer households. As demonstrated in Table 5, the microenterprise comprises 68 percent of household income in poverty Level 1. That percentage increases with income, with 92 percent of household income attributable to the microenterprise at Level 5. One hypothesis for this phenomenon is that wealthier clients can afford to focus on their microenterprises without having to turn to full- or part-time employment or other sources to generate income.

### **Poverty Regression Results**

An important question for the microfinance field as a whole concerns the relationship between loan size and poverty. Average loan size is often the most readily available information about the depth of outreach of an MFI, and is often used to make judgments about the poverty levels of the clients or about whether a given MFI is oriented to serving the poor. It is therefore very important to understand whether – or in what cases – such judgments can be considered valid. Our research suggests that for institutions such as Mibanco, which determines loan size on the basis of family income, an individual client’s loan size is a moderately good proxy for poverty level, which can be improved by taking household size into account or by focusing on the size of the monthly payment (i.e. correcting for loan term). It is important to note, however, that average loan size measured at

the level of the MFI’s total portfolio is not necessarily a good proxy, because it masks the distribution of loan sizes (see sections on loan size distribution above).

Based on our regression analysis, we find that the single strongest predictor of household income per capita is loan payment size, with loan size second. In regressions in which either payment size or loan size is the only independent variable, the R-squared value is 0.44 or 0.33, respectively, as illustrated in Table 6. In other words, based on the Mibanco data, payment size explains 44 percent of the variation in household income per capita whereas loan size explains 33 percent.

**Table 6: Selected Regression Results for Predictors of Household Income per Capita**

	(1)	(2)	(3)	(4)	(5)
<b>Payment Size</b>	5.80 (0.08)		4.31 (0.09)	4.29 (0.09)	4.44 (0.09)
<b>Loan Size</b>		0.74 (0.01)			
Total Assets			0.06 (0.00)	0.06 (0.00)	0.06 (0.00)
Loan Term					-693.52 (65.91)
HH Size				-736.36 (19.97)	-741.73 (20.11)
# of Loans					-31.46 (6.83)
Education					256.63 (43.53)
Housing					-165.31 (51.10)
Intercept	2,509 (42.33)	2,728 (47.05)	2,449 (40.62)	6,049 (104.53)	7,727 (276.63)
# of Obs.	7,206	7,206	7,206	7,206	7,206
R-squared	0.44	0.33	0.49	0.57	0.58

Complete regressions results are included in *Poverty Outreach Findings: Mibanco, Peru*. Standard errors in parenthesis; all coefficients are significant at the 99 percent confidence level.

We find that the most accurate predictors of a household’s income per capita are loan payment size, total assets, and household size. Employed jointly, these three variables predict 57 percent of the variation in per capita income. We can improve the accuracy of our predicted level of per capita income only marginally by incorporating additional demographic variables, such as a clients’ number of loans, education level, and housing status.

#### *Regression Coefficients*

The results of the regression analysis not only enable us to predict income levels based on available data, but they also enable us to examine the relationship between individual variables and income.

One of the more interesting results is that the number of loans is negatively associated with household income. Although the correlation is not particularly strong, it is statistically significant at

least at the 90 percent confidence level in nearly all forms of the regression. The other results are generally consistent with our expectations. For example, loan term is negatively associated with income, implying that shorter loan terms are associated with lower income levels. Also, as expected, household size is positively associated with household income, but negatively associated with household income per capita. Economic activity is negatively associated with income, implying that on average, clients engaged in commerce have lower income than those who work in the service or production sectors.

**Abelado Vargas, Owner, Lubricante Vargas**

Abelado Vargas first worked as a roaming auto repairman in Lima's Rimac neighborhood, fixing cars from a hole he would dig in the side of the road. After 13 years, he and his brother had saved enough money to rent a workshop and used equipment.



In August 2000, he took out his first Mibanco loan for US\$860. With it, he purchased brake installation equipment so that he could take on more lucrative jobs. He hopes to take additional Mibanco loans to purchase more equipment and to rent a second workshop.

Abelado's brother and daughter work at the repair shop. His daughter is going to school for auto mechanic training. Abelado lives with his wife and three daughters, aged four, 15 and 17, several miles from his repair shop. His wife works from their home, running a small bodega.

**Recommendations for Monitoring of Poverty Levels**

Our regression results illustrate that given the credit evaluation approach that is employed by Mibanco, loan size and especially payment size are reasonably strong poverty indicators and that they can be adjusted for factors such as total assets and household size to increase their precision in predicting income levels.

Mibanco is extremely well-positioned to monitor poverty on a regular basis through its reliable data and comprehensive management information system. We recommend that Mibanco incorporate its data on income and related variables into a regular Poverty Outreach Assessment Report that would be produced as a regular management report on a monthly basis. This reporting system would leverage the data that Mibanco is already collecting in the credit application process and storing in its MIS. Such a report would sort clients by poverty levels (i.e. the five levels used here) in order to better track its clients' poverty distribution and monitor how poverty outreach evolves over time.

Specifically, we recommend that the report include the following data disaggregated by poverty category: number of clients and amount of portfolio, household income, initial loan size, outstanding loan balance, total assets and the number of new clients. A second portion of the report

would provide a break-down of the value of the portfolio, number of clients, and clients' income by specific loan size categories<sup>13</sup>.

The results of this poverty assessment represent an important, but only initial, step in gaining a better understanding the poverty level and profile of the clients of microfinance institutions. The kind of analysis performed here is potentially relevant for any MFI that examines household and business income as part of the credit evaluation process. The success of this poverty assessment will ultimately be measured by the extent to which this kind of analysis can be translated into ongoing poverty monitoring through such mechanisms as the Poverty Outreach Assessment Report, and further on the extent to which such a report is used in the governance and management of MFIs. Regular poverty reporting will not only enable a microfinance institution to better monitor the poverty level and profile of its clients, but will also quantify its market to potential investors and help it to develop products and policies to effectively increase market share.

This report was prepared by Karen Horn Welch, ACCION poverty consultant and Patricia Lee Devaney, director of research and development at ACCION under the direction of Elisabeth Rhyne, ACCION's senior vice president of research and development. Thanks to Vivek Puri, Monique Cohen, Elizabeth Dunn, Diane Steele and Derly Duran for their input throughout the process. Special thanks to Manuel Montoya, Mibanco's general manager, and his staff for their participation and support.

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- *InSight* 3: Making Microfinance Transparent: ACCION Policy Paper on Transparency
- *InSight* 4: Building the Homes of the Poor: Housing Improvement Lending at Mibanco

<sup>13</sup> A report template and more detailed instructions on preparing the report may be furnished upon request to [plee@accion.org](mailto:plee@accion.org).

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